

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05 NSC-05

SS-15 STR-04 CEA-01 /083 W

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P R 191215Z AUG 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 7414

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: FINANCIAL DEVELOPMENTS

1. SUMMARY: INFLATION IN JULY ACCELERATED WHILE
THE CRUZEIRO HAS BEEN DEVALUED FOR THE ELEVENTH TIME
THIS YEAR. PRELIMINARY TRADE FIGURES FOR JULY
WERE NOT ENCOURAGING AS THE BALANCE AGAIN TURNED
NEGATIVE AFTER THE JUNE SURPLUS. THE GOB MAY BE
REQUIRED TO TAKE ADDITIONAL MEASURES TO CONTAIN
INFLATION AND REDUCE THE TRADE DEFICIT. END SUMMARY.

2. INFLATION IN JULY, AS MEASURED BY THE GENERAL
PRICE INDEX, REGISTERED A RISE OF 3.8 PERCENT,
BRINGING THE CUMULATIVE INCREASE SINCE DECEMBER
1975 TO 27.3 PERCENT AND THE RISE FOR THE TWELVE-
MONTH PERIOD ENDING IN JULY TO 42.9 PERCENT. THE
RISE IN THE WHOLESALE PRICE INDEX WHICH HAS
A WEIGHT OF 0.6 IN THE WEIGHTED GENERAL
PRICE INDEX (THE RIO COST OF LIVING INDEX
HAS A WEIGHT OF 0.3 AND THE RIO CONSTRUCTION
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INDEX A WEIGHT OF 0.1) WAS MAINLY RESPONSIBLE

FOR THE JULY JUMP. WHOLESALTE PRICES WENT UP BY 4.3 PERCENT, THE RIO COST OF LIVING INDEX 2.3 PERCENT AND THE RIO CONSTRUCTION INDEX 5.0 PERCENT. BOTH FOOD AND NON-FOOD PRICES WERE RESPONSIBLE FOR THE INCREASE IN WHOLE-SALE PRICES. THESE INCREASES WILL BE PASSED ON TO RETAIL PRICES IN COMING MONTHS.

3. AS INFLATION HEATED UP, THE CRUZEIRO SUFFERED ITS ELENTH DEVALUATION ON AUGUST 18. THE LATEST CHANGE OF 1.975 PERCENT, BRINGS THE CUMULATIVE DEPRECIATION SO FAR IN 1976 TO 23.06 PERCENT. DURING THE SAME PERIOD LAST YEAR, THE CRUZEIRO WAS DEVALUED BY 12.4 PERCENT (INFLATION THROUGH AUGUST 1975 WAS ONLY 18.4 PERCENT). THE NEW CRUZEIRO/DOLLAR RATES ARE 11.10 FOR BUY AND 11.17 FOR SELL.

4. ON THE TRADE BALANCE FRONT, JULY OUTCOME SHOWED THE ACCOUNT BACK IN THE RED (BY \$80 MILLION). EXPORTED WHICH HIT THE \$1.0 BILLION MARK IN JUNE DROPPED TO \$920 MILLION, ACCORDING TO AN ANNOUNCEMENT BY FINANCE MINISTER SIMONSEN. TOTAL EXPORTS THROUGH JULY THUS AMOUNTED TO \$5,329 MILLION, UP 7.8 PERCENT IN VALUE FROM THE SAME TIME LAST YEAR. IMPORTS, ON THE OTHER HAND SHOWED LITTLE SIGN OF DECREASING, AS THE AGAIN REACHED OVER \$900 MILLION. TOTAL IMPORTS THEOUGH JULY TOTALLED \$6,939 MILLION, DOWN ONLY ABOUT 3 PERCENT FROM LAST YEAR. THE TOTAL TRADE DEFICIT FOR THE FIRST SEVEN MONTH THUS CAME TO \$1,610 MILLION (AS COMPARED TO \$2,174 MILLION SAME TIME LAST YEAR).

COMMENT:

5. THE JULY TRADE RESULTS WILL NO DOUBT TAKE AWAY SOME OF THE OPTIMISM GENERATED BY THE JUNE TRADE FIGURES, WHICH SHOWED A SURPLUS FOR THE FIRST TIME THIS YEAR AND WHICH

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LED TO OFFICIAL EXPECTATIONS THAT PERHAPS THE WORSE HAD PASSED. THE JULY TRADE RESULTS WERE PARTICULARLY DISAPPOINTED ON THE IMPORT SIDE. DESPITE THE TIGHT CREDIT SITUATION AND A MYRAID OF OTHER RESTRICTIONS, IMPORTS CONTINUE TO FAIL TO GIVE ANY CLEAR SIGN OF DECREASING. THEY HAVE REMAINED MORE OR LESS ON A PLATEAU THIS YEAR AT A HEIGHT WHICH IS NOT SUSTANABLE FOR MUCH LANGER. IN FACT,

FINANCE MINISTER SIMONSEN WAS QUOTED AS SAYING
A FEW DAYS AGO THAT UNLESS IMPORTS CAME DOWN
ADDITIONAL MEASURES WOULD HAVE TO BE TAKEN.
PERHAPS THE AUGUST FIGURE WILL INDICATE A CHANGE
IN THIS TREND. IF NOT, WE ARE VERY LIKELY TO
SEE SOME ADDITIONAL RESTRICTIONS AGAINST IMPORTS.

6. ON THE INFLATION FRONT, THE JULY INCREASE
SHOWS THAT THE FIGHT AGAINST INFLATION HAS NOT
YET BEEN WON BY THE MONETARY AUTHORITIES. MONETARY
OFFICIALS WILL, THEREFORE, HAVE TO MAINTAIN THEIR
RECENTLY-ADOPTED STRINGENT CREDIT POLICIES AND PERHAPS EVEN
TIGHTEN THEM FURTHER. ALSO, THE LATEST DEVELOPMENTS
SHOULD STRENGTHEN THE POSITION OF MONETARY
OFFICIALS AGAINST THOSE FORCES, BOTH IN AND
OUT OF GOVERNMENT, WHICH MAY WISH TO SEE A
RELAXATION OF PRESENT POLICIES AS THE NOVEMBER
15 MUNICIPAL ELECTIONS APPROACH.
CRIMMINS

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, ECONOMIC CONDITIONS, DEVALUATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BRASIL07275
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760318-0364
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760840/aaaabicm.tel
Line Count: 134
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 14 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 JUL 2004 by CunninFX>; APPROVED <27 OCT 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS
TAGS: EFIN, ECON, BR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006